

Message Text

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R 051213Z DEC 74

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 2590

INFO AMEMBASSY BONN

AMEMBASSY LUXEMBOURG

UNCLAS BRUSSELS 9564

BONN FOR INTERNAL REVENUE SERVICE REPRESENTATIVE

DEPARTMENT PLEASE PASS TREASURY

TREASURY PLEASE PASS IRS

E.O. 11652: N/A

TAGS: EFIN, BE

SUBJECT: BELGIANS MODIFY INCOME TAX LIABILITY FOR RESIDENT
FOREIGNERS

1. UNTIL RECENTLY BELGIAN LAW PROVIDED THAT WHILE RESIDENT FOREIGNERS WERE, IN PRINCIPLE, TAXED ON WORLDWIDE INCOME JUST AS ARE BELGIAN RESIDENT NATIONALS, RESIDENT FOREIGNERS "TEMPORARILY" RESIDENT IN BELGIUM AND WORKING FOR FOREIGN CONTROLLED ENTERPRISES WERE EXEMPT FOR FOREIGN SOURCE UNEARNED INCOME. MORE IMPORTANTLY, THEY WERE ALSO ELIGIBLE FOR EITHER: (A) A FLAT 30 PERCENT DEDUCTION ON EARNED INCOME OF UP TO BF 1 AND HALF MILLION (\$36,000) OR; (B) IF THEY SPEND MORE THAN 50 PERCENT OF THEIR TIME OUTSIDE BELGIUM, A FLAT 50 PERCENT DEDUCTION OR SUCH GREATER DEDUCTION AS EQUALED THE PERCENT OF WORKING TIME SPENT OUTSIDE BELGIUM.

2. NO OFFICIAL LIMITATION WAS PLACED ON HOW LONG

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"TEMPORARY RESIDENCE" STATUS COULD ENDURE, AND SINCE IN

SEVERAL CASES TWENTY-YEAR RESIDENTS WERE STILL CLASSIFIED AS "TEMPORARY", MANY MULTI-NATIONAL COMPANIES FOUND BELGIUM A VERY ATTRACTIVE LOCATION FOR THEIR EUROPEAN HEADQUARTERS (E.G. 855, MONSANTO). MANY SMALL REGIONAL SALES OFFICES ALSO LOCATED IN BRUSSELS FOR THE SAME REASON.

3. ON SEPTEMBER 27, THE MINISTRY OF FINANCE ISSUED A DIRECTIVE TO ITS REGIONAL INCOME TAX COLLECTORS INSTITUTING A FIVE YEAR LIMITATION (IN A FEW CASES EIGHT YEARS) ON THE "50 PERCENT" REGIME AND SUBSTANTIALLY BROADENING THE TYPES OF INCOME (INCLUDING SOME UNEARNED INCOME) ON WHICH THE GROSS INCOME OF A RESIDENT FOREIGNER IS COMPUTED. IN THIS LATTER CASE, MANY RESIDENT FOREIGNERS WILL FIND THAT MORE OF THEIR INCOME IS ABOVE THE \$36,000 LIMIT ALLOWABLE UNDER THE "20 PERCENT" REGIME AND THUS MORE WILL BE TAXED AT FULL RATES IN BELGIUM.

4. AFTER AMCHAM REPRESENTATIONS TO THE MINISTER, ACCORDING TO A FINANCE MINISTRY SOURCE, HE RULED THAT THE NEW TAX SCHEME WAS NOT TO BE APPLIED TO 1974 INCOME (AS HAD BEEN STATED IN THE SEPTEMBER 27 CIRCULAR) BUT WAS TO BE APPLIED ONLY TO 1975 INCOME AND TO THE YEARS THEREAFTER. A CIRCULAR IMPLEMENTING THIS MODIFICATION WILL BE ISSUED SHORTLY, OUR SOURCE INFORMED US.

5. COMMENT: THE EMBASSY AND THE AMERICAN CHAMBER OF COMMERCE (AMCHAM) IN BELGIUM HAVE BEEN COOPERATING ON THIS PROBLEM FOR THE LAST TWO MONTHS. THE NET EFFECT OF THE TAX CHANGE WILL BE TO REDUCE BELGIUM'S ATTRACTIONS AS A FOREIGN BUSINESS HEADQUARTERS TO THE SAME LEVEL AS LONDON AND PARIS (FROM A TAX POINT OF VIEW).
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